

Brazil's GDP Surges To Become The Sixth Largest Economy In The World

Contributed by Euromonitor International
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Brazil In 2011 Brazil became the sixth largest economy in the world in US\$ terms. Unrelenting growth drove it past a spluttering UK struggling to recover from the 2008 global economic downturn. In the face of a global economic slowdown and a weak developed world, the emerging markets continue to prop up global growth.

Though Brazil does face some risk the orientation of its economy looks likely to support the country's long term growth prospects.

Brazil's economy grew by 3.8% in real terms in 2011 to reach a value of US\$2,581,501 million as expansionary fiscal policy and strong export markets supported growth. The UK economy has continued to suffer from the eurozone sovereign debt crisis and weak domestic demand, seeing growth of just 1.1% in real terms to a value of US\$2,484,668 million;

Source: Euromonitor International from International Monetary Fund (IMF), International Financial Statistics

- In Brazil rapidly increasing disposable income is producing an ever growing domestic market. Retail, construction and public service sectors have all grown strongly as a result. Mining and quarrying output grew strongly as well due to continued demand from emerging markets;

- Brazil's manufacturing industry is a relative black spot for the country. The sector declined as a percentage of GDP from 14.9% to 12.8% between 2006 and 2011. Tweet this! High interest rates, a low skilled work force, a strong currency and significant competition from Asia has stymied the sector's development.

Implications

The success of Brazil continues to support the shift in global consumption and economic growth; from the developed economies to the developing:

- Consistent growth between 2001 and 2009 (latest year available) has pulled 19.7 million people out from living below the US\$2 a day poverty line, contributing to a rapidly growing consumer market. Between 2006 and 2011 discretionary spending (defined as consumer expenditure on all but housing, food and non-alcoholic drinks) increased by 37.3% in real terms to reach R\$8,063 per capita. Though a low savings rate and reliance on international capital markets does provide some instability for consumption and investment;

- Inequality remains damagingly high thanks to concentrated land ownership and a large low skilled section of the workforce. Brazil's Gini coefficient (a measure of income inequality where the higher the number over 0, the higher the inequality) of 51.7 in 2011 makes it the 10th most unequal country out of the 85 where the indicator is measured; Tweet this!

- Open international policy has led to high growth in Foreign Direct Investment (FDI) and trade, important for boosting economic growth and job creation. Inward FDI stocks increased by an average of 9.5% a year in real terms between 2006 and 2010 (latest year available);

- Trade has grown strongly too, especially with Asia Pacific where the value of exports between 2006 and 2011 increased by 254% in US\$ terms. Asian economies have however been accused of dumping low value products onto the Brazilian market, undercutting local industry and impairing the development of certain sectors, such as automotive and household goods;

Source: Euromonitor from trade sources/national statistics, International Monetary Fund (IMF), Direction of Trade Statistics

- In 2011 a series of events conspired to slow growth in Brazil. The Central Bank increased its Special System of Clearance and Custody interest rate (SELIC) due to fears of overheating. On top of this the real appreciated against the dollar and the eurozone crisis further affected export demand. As a result manufacturers lost competitiveness and consumers reduced spending. Third quarter real GDP growth fell to 0.47% quarter-on-quarter thanks to this trend.

Prospects

A cooling global economy in 2012, with lower growth in India, China and Russia are expected to reinforce weaker economic growth in Brazil. The IMF predicts growth to be just 3.0% and 4.0% year-on-year in Brazil for 2012 and 2013.

As a response under the government's "Bigger Brazil Plan" R\$25 billion will be provided as tax breaks to support the weakest sectors of manufacturing and those most affected by Asian product dumping. While increased spending from 2012 by Brazil's development bank for the 2014 World Cup and 2016 Olympics is set to augment among other things infrastructure development, acting as a stimulus for the economy.

In the following decade a profound shift is expected in the make-up of the top 10 global economies. By 2020 Euromonitor expects BRIC countries to surpass all but the USA, Japan and Germany to make up 4 of the 7 largest economies in the world in PPP terms, changing the balance of global economic influence. Tweet this! It is however important to note differences between the BRIC and developed countries will persist. For example in 2020 per capita disposable incomes in the developed economies is expected to average US\$33,575, while the BRIC average will be just US\$4,604 in real terms. Tweet this!

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